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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	CC Docket No. 95-72
End User Common Line	)	DOCKET FILE COPY ORIGINAL
Charges	)	

[redacted]

REPLY COMMENTS OF GTE

GTE Service Corporation and its affiliated domestic telephone operating companies

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July 14, 1995

THEIR ATTORNEY

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SUMMARY

GTE recommends the Commission act promptly to remove the current level of uncertainty that surrounds the price consumers must pay for ISDN services. Comments make it clear that application of SLCs on a per-derived channel basis would seriously impede deployment of ISDN, and would be contrary to the Commission's statutory obligation to promote new services. While the best action the Commission could take would be to examine the inter-related issues of recovery of Non-Traffic Sensitive costs and continuation of universal service in a competitive telecommunications market within a single proceeding, GTE recognizes awaiting completion of such a massive undertaking may not be in the public interest in this narrow instance.

The next best approach is for the Commission to maintain the *status quo* by continuing the suspension of enforcement action against LECs that are not applying a SLC per derived channel, while modifying the *Enforcement Moratorium* to remove the requirement to adjust the CCL rate.

In the event the Commission decides to pursue the instant NPRM, GTE recommends adoption of a versatile approach that will be both useful for different market conditions in various states, and for future derived channel services. This approach will best promote deployment of ISDN and other derived channel services. Further, the record shows that the concern expressed in the *Notice* (at 25¶) regarding anything more than a *de minimis* upward

pressure on the CCL rate level that might occur due to a lower amount of SLC revenues are unfounded.

Should the Commission adopt a one-size-fits-all rule for application of SLCs to ISDN and other derived channel services, the best approach is application of SLCs on a per ISDN service basis. The "cost ratio" approach of SLC application to ISDN service should not be pursued. The required cost studies would introduce a new and needlessly complex regulatory requirement just for a single service, but would not achieve service-specific NTS recovery. As proposed, the cost ratio approach would merely apply a calculated number of charges that are themselves: (i) based on a fully distributed allocation methodology; (ii) capped at a level established through a political process; and (iii) varied in amount based on the identity of the customer. The industry and Commission resources required to develop the "cost ratio" would be better spent in a comprehensive proceeding that could examine *all* NTS recovery policies.

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In the Matter of	)	
	)	CC Docket No. 95-72
End User Common Line Charges	)	
	)	

REPLY COMMENTS OF GTE

GTE Service Corporation and its affiliated domestic telephone operating companies ("GTE"), hereby reply to the comments submitted in response to the Notice of Proposed Rulemaking (the "NPRM" or "Notice")[1], seeking comment on the application of End User Common Line Charges (referred to as Subscriber Line Charges, or "SLCs") to local exchange carrier ("LEC" or "exchange carrier") local loops used with Integrated Services Digital Network ("ISDN") and other services that permit the provision of multiple voice-grade-equivalent channels to a customer over a single facility.

DISCUSSION

I. THE PUBLIC BENEFITS AVAILABLE FROM ISDN SERVICES WILL BE DELAYED AND DIMINISHED WITH APPLICATION OF SUBSCRIBER LINE CHARGES ON A PER DERIVED CHANNEL BASIS.

Many of the comments overwhelmingly confirm that ISDN can enable consumers to access a number of communications services that would otherwise

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[1] In the Matter of End User Common Line Charges, Notice of Proposed Rulemaking, CC Docket No. 95-72, FCC 95-212, released May 30, 1995.

either unavailable or not cost-effective. "ISDN provides consumers in their home and commercial users in their businesses with high-speed, high quality access to a multitude of data services and to the Internet, and through PC communications, to a wide range of other multimedia, voice and data features. ISDN has demonstrated its ability to play an increasingly important role in telemedicine, long-distance education, and telecommuting, among other public service uses."[2]

Comments provide many specific examples of the value of ISDN. Online service providers are especially concerned about the availability of ISDN, since ISDN "if widely deployed, potentially could serve as a primary vehicle by which many residential consumers and businesses obtain high-speed, digital access to the Internet and commercial, nonprofit, and community online services."[3] ISDN service "provides relatively cheap connectivity for desktop videoconferencing" and "offers the logical next step after 28.8 kbps/V.34 modems for applications such as Internet access, Group 4 telefacsimile, and computer-to-computer connections."[4] "N[ational] P[ublic] R[adio] has installed ISDN circuits at locations

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2 Information Technology Industry Council ("ITI") at 4. *See also*, Center for Democracy and Technology ("CDT") at 7-9; Tele-Communications Association ("TCA") at 3.

3 Joint Comments of America Online Incorporated, CompuServe Incorporated, GE Information Services, Inc., and Prodigy Services Company ("Online Providers") at 7. *See also*, Microsoft Corporation ("Microsoft") at 2.

4 California Bankers Clearing House Association, MasterCard International Incorporated, the New York Clearing House Association and the Securities Industry Association ("California Bankers") at 5-6 (footnote omitted). *See also*, Online Providers at 7-8. "[H]igh-speed

worldwide and relies heavily on ISDN feeds for much of its newsgathering" and often relies on ISDN service "as a back-up to dedicated studio-to-transmitter links."[5] ISDN can "reduce and/or eliminate the need for the installation of expensive new cabling within the increasingly scarce conduit space of office buildings."[6] Moreover, "B[asic] R[ate] I[nterface] service could play a significant role in connection with expanded telecommuting opportunities."[7]

Comments provided by consumers are equally clear that application of a SLC per channel is likely to slow or arrest the use of ISDN[8] and impede the development and deployment of other beneficial derived channel services.[9]

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transmission/receipt of multimedia projects is possible." (footnote omitted).

5 National Public Radio ("NPR") at 4.

6 Online Providers at 8 (footnote omitted).

7 American Petroleum Institute ("API") at 2.

8 *See* Online Providers at 8 ("While ISDN has the potential to provide residential consumers and businesses with many benefits, many of those entities are unlikely ever to enjoy those benefits if the Commission requires the LECs to impose a SLC for each channel derived from ISDN."); ITI at 2 ("...demand for ISDN is highly elastic."); West Virginia University at 1 ("Increased costs from increased SLC charges will have a very negative impact on our ability to improve the technological environment on the WVU Campus, and that supporting higher education in West Virginia.")

9 *See* California Bankers at 5 ("Imposing a SLC on every derived channel is a tax that ... discourag[es] the use of new technologies."); Microsoft at 4 ("The derived per-channel approach in essence penalizes innovation."); TCA" at 2 ("[T]he multiple SLC burden acts as a heavy tax on an efficiency-enhancing service, creating perverse incentives and impeding access by residential and smaller business customers to advanced information network capabilities."); Commercial Internet Exchange

"Policies that mandate such results are violently at odds with the nation's (and the Commission's) commitment to the rapid deployment of communications technologies that promise enhancements in productivity, health care, and education."[10] Concern is shown regarding the impact on the Nation's economy and global competitiveness.[11] Further, "the per channel approach . . . could very well have the unintended consequence discouraging switched access utilization."[12] The evidence is clear -- the current Commission rules requiring charging a SLC per ISDN derived channel do not serve the public interest and must be changed.[13]

The solution is equally clear: "[T]o fulfill its statutory obligation to `encourage the provision of new technologies and services to the public,' the

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Association ("CIX") at 2 ("Unfortunately, SLCs based upon derived channels ... may result in both regulatory disincentives to innovate..."); API at 3 ("A per channel approach could stifle emerging technologies.").

10 California Bankers at 5.

11 *See* Online Providers at 9 ("Imposition of one SLC on each channel derived using ISDN would have a deleterious impact on the economy and impede development of the National Information Infrastructure."). *See also* Microsoft at 2 ("[T]he United States lags far behind many other countries in widespread deployment of ISDN.").

12 API at 3.

13 *See*, for example, NPR at 5 ("[T]he Commission's local loop cost recovery rules may significantly, and unnecessarily, undermine the public interest, including by hampering the ability of the public radio system to maintain and improve the quality of service it provides to the American people.") *See also*, Rural Telephone Coalition ("RTC") at 2 ("[R]etention of the current policy effectively denies rural America the benefits of ISDN and other advanced multichannel telecommunications service offerings.")

Commission should discontinue the current policy of applying a SLC to each ISDN derived channel."[14]

II. THE COMMISSION SHOULD AVOID A PIECEMEAL APPROACH AND EXAMINE RECOVERY OF ALL NON-TRAFFIC SENSITIVE COSTS IN A COMPREHENSIVE PROCEEDING.

GTE (at 4) urged the Commission to consider the many inter-related issues associated with Non-Traffic Sensitive ("NTS") cost recovery along with the "competitive developments in the interstate access market, and the resulting pressure to reduce unnecessary support flows in order to ensure fair competition and preserve universal service"[15] in a single comprehensive proceeding. Other parties also support initiation of such a proceeding.

AT&T (at 12-14) recommends the Commission begin to design a comprehensive policy that would allow full recovery of NTS costs on a flat rate basis, and replacement of existing subsidy mechanisms with a more targeted approach that is funded through competitively neutral revenue surcharges. Sprint (at 3) states that "the Commission should continue to work toward an access pricing system that recovers costs from the cost causer and reduces and ultimately removes service cross-subsidization support flows such as those involved in SLC charges."[16] TCA (at 9-10) "supports initiation of a broad access

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14 TCA at 5 (footnote omitted).

15 NPRM at ¶1.

16 California Bankers (at 4) recommends SLCs be "based on the actual interstate cost." While GTE agrees with the principle of basing rates "on

charge reform docket." Pacific Bell and Nevada Bell ("Pacific Bell") (at 6) supports "an expedited review of access charge rules and universal service obligations so that the outmoded rules can be replaced with a system that addressees today's technology, today's competitors, and today's marketplace."[17]

III. THE COMMISSION SHOULD REMOVE THE UNCERTAINTY THAT SURROUNDS ISDN SERVICES BY ANNOUNCING THAT THE *ENFORCEMENT MORATORIUM* WILL BE MAINTAINED UNTIL A COMPREHENSIVE PROCEEDING CAN BE COMPLETED.

GTE urges the Commission to act promptly to remove the uncertainty that currently surrounds the price for ISDN services. Because of the uncertainty, many customers are awaiting Commission action before committing to the purchase of expensive ISDN customer premise equipment.[18] Although the best approach is to examine the many inter-related issues within a single proceeding, GTE recognizes that the amount of time needed to complete such a massive project would not serve the public interest in this narrow case.

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the costs which customers cause a carrier to incur," (*id.*) GTE opposes establishing a specific SLC level for only one service.

17 *See* USTA (at 14-15) discussing the pricing umbrella provided by the Commission's current rule interpretation to competitors of LEC ISDN offerings. *See also*, Southwestern Bell at 2 ("The application of SLCs on derived channel services is just the 'tip of the iceberg' of problems with the current access rate structure."); Bell Atlantic at 6 ("It is undisputed that the nature of the telecommunications industry has changed markedly in the intervening period. These changes necessitate a comprehensive re-examination of access charges and the mechanisms that are designed to preserve universal service.").

18 *See* Northern Arkansas Telephone Company at 4.

Therefore, GTE (at 4) recommends that the Commission conserve its resources and simply maintain the *status quo* by announcing publicly its intent to continue the *Enforcement Moratorium* until a comprehensive review of all NTS cost recovery could be completed.[19]

IV. THE COMMISSION SHOULD ABANDON THE *ENFORCEMENT MORATORIUM'S* REQUIREMENT THAT CCL RATES BE ADJUSTED.

The *Enforcement Moratorium*'s requirement that LECs re-calculate Carrier Common Line ("CCL") charges as if they were imposing a SLC for each ISDN derived channel is unreasonable and should be eliminated.

Several parties object to Commission action that would result in the LEC voluntarily assuming the consequences for any hypothetical SLC revenue shortfall.[20] GTE agrees that it would be inappropriate for the Commission to require that LECs impute a simplistically calculated SLC revenue shortfall into the derivation of the CCL rate.[21] As the record established in comments and documented in the discussion in Section VI *infra* shows, it is not reasonable to assume the full amount of "lost" SLC revenues could have ever been collected in

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19 Public Notice, DA 95-1168, May 30, 1995. ("*Enforcement Moratorium Notice*")

20 *See* NYNEX at 19; Pacific Bell at 6; Bell Atlantic at 7.

21 In this context, GTE also supports Southwestern Bell's suggestion (at 4-5) that the Commission allow LECs that obtain reduced SLC revenues as a result of a modification of the current rules be allowed to recast the current base period minutes per line to reflect the restructured SLC demand units to "prevent an anomalous reduction in the CCL rate in the next annual filing" that could result from "usage growth that did not actually occur."

the first place. This makes any Commission requirement to forgo some theoretical amount of revenues that could not have been obtained from customers both unreasonable and a difficult mandate to sustain.[22]

Many of the largest exchange carriers have not been charging a SLC per derived channel.[23] As comments in Section I *supra* demonstrate, if a SLC per derived channel had been charged all along, the number of existing ISDN customers would be far smaller than todays' customer base.[24]

Further, as Time Warner (at 4) explains, "[i]t is not certain whether decreases in SLC revenue would result in increases in the CCL rate (rather it is dependent on the relative levels of P[rice] C[ap] I[ndex] changes and growth in minutes per access line)." This means that there is no automatic dollar-for-dollar linkage between SLC revenues and the CCL price level under the Price Cap rules.[25] Rather, only in some circumstance could there be a very small

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22 *See* NYNEX at 19.

23 *See* Petitions for Waiver of Sections 69.104 of the Commission's Rules in connection with ISDN services, filed by Bell Atlantic, February 10, 1995; GTE Telephone Companies, March 2, 1995 ("GTE Waiver"); Pacific Bell, February 21, 1995; Cincinnati Bell Telephone, March 16, 1995; US West, April 4, 1995 and BellSouth, April 5, 1995.

24 GTE estimates a large reduction in its ISDN customer base. *See GTE Waiver* at 3-4.

25 *Policy and Rules Concerning Rates for Dominant Carriers*, *Second Report and Order*, CC Docket No. 87-313, *Notice of Proposed Rule Making*, 2 FCC Rcd 5208, (1987), *Second Report and Order, Report and Order and Second Further Notice of Proposed Rulemaking*, 4 FCC Rcd 2873 (1989), and Erratum, 4 FCC Rcd 3379 (1989), *Second Report and Order*, 5 FCC Rcd 6786 (1990), and *Erratum*, 5 FCC Rcd 7664 (1990) ("*LEC Price Cap Order*"), *modified on recon.*, 6 FCC Rcd 2637 (1991), *aff'd sub nom.*

theoretical rate change allowed due to a change in the Price Cap Index ("PCI").[26] In fact, sample calculations performed by GTE reveal that under certain circumstances, increasing the number of SLCs charged can lead to an *increase* in the CCL PCI, and in other circumstances, decreasing the number of SLCs charged can lead to a *decrease* in the CCL PCI.[27] The *Enforcement Moratorium*'s requirement is based upon an assumption that a loss of SLC revenues would cause an increase in the CCL. The Price Cap rules simply do not lead unambiguously to this result.

Finally, the *Enforcement Moratorium* implicitly uses the per derived channel approach as the yardstick by which other approaches are to be compared. This is an unreasonable benchmark. The Commission developed the instant *Notice* in recognition of the need to modify the per derived channel SLC application in light of "competitive developments in the interstate access market, the need to ensure fair competitive ground rules, and the need to

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National Rural Telecom Association v. FCC, 988 F.2d 174 (D.C. Cir. 1993).

26 Further, even if there is a change in the PCI, this may not result in a change in the CCL rate level. GTE, for example, has chosen to price the CCL below the cap in a number of its study areas. *See also,* Microsoft at 3 ("To the extent IXCs can bypass the local exchange ... there are marketplace constraints on any CCL increase.").

27 Moreover, as also discussed in Section VI *infra*, comments support GTE's contention (at 15-16) that the actual impact of any "lost" SLC revenues on the CCL rate level will be *de minimis*. *See* Time Warner at 2; Ameritech at 2.

preserve universal service in a changing environment."[28] Further, there is an overwhelming consensus among commenting parties that the per derived channel application method does not serve the public interest and should be changed. If the Commission, on the basis of this record, determines that application of the SLC on a per channel basis should not be enforced, it would be unreasonable to establish a requirement that uses that method as a benchmark for the calculation of CCL charges.

Since there can be CCL rate impacts not anticipated by the *Enforcement Moratorium,* and the certainty of endless arguments regarding the "appropriate" number of ISDN SLCs that could have been collected from customers under the per derived channel approach, GTE recommends the Commission remove the CCL adjustment requirement from the *Enforcement Moratorium.*

V. IN AN INCREASINGLY COMPETITIVE TELECOMMUNICATIONS MARKETPLACE, THE COMMISSION'S SLC APPLICATION POLICY SHOULD BECOME MORE VERSATILE.

In the event the Commission decides, nonetheless, to pursue the instant *NPRM*, GTE recommended (at 4-9) creation of a SLC application framework that will be adaptable both to different market conditions in various states, and to future derived channel services.

It almost goes without saying that competition for virtually all exchange carrier services exists or is in the process of developing. Already fifteen states

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[28] *Notice* at ¶15.

either have authorized competition for local exchange service or have an open proceeding to address, or otherwise establish, ground rules for local competition. An additional twelve states have passed this year, or are in the process of considering, competitive telecommunications legislation in the current legislative session.[29] The FCC has been vocal in supporting competition for exchange carrier services. Newspapers are full of articles describing the current Congressional effort to rewrite telecommunications legislation to encourage competition for all telecommunications services. Given this rapidly changing environment, GTE feels it is unrealistic for the Commission to adopt a one-size-fits-all approach to common line recovery.

The comments of a number of parties confirm that recovery of loop and other NTS costs should recognize the changing conditions in the telecommunications marketplace. "[T]he focus in this investigation should be on developing an economically efficient rate structure, not to fine-tune the effects of rate changes on various constituencies. A weighing of public benefits will not result in an efficient rate structure; but an efficient rate structure will produce public benefits.[30] "As competition for local service begins, it is important that rates for all local exchange services be more closely aligned with the underlying costs. The interstate portion of local loop costs, including the non-traffic sensitive

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[29] *See* "NCTA Targets Arizona, Missouri for Local Competition," *Telecommunications Reports*, March 20, 1995, at pages 13-14.

[30] NYNEX at 5.

costs associated with local switching ports, should be fully recovered on a flat-rate basis . . ."[31] A rigid rule based on averages that ignores the cost differences across a broad geographic area and between different technologies is not compatible with the alignment of prices with underlying costs and the resulting economically efficient pricing structure that is of paramount importance in a competitive environment.

There was broad consensus among commenters that the application of one SLC per derived channel for ISDN would not result in rates for LEC ISDN services which approximated market rates.[32] Commenters also agree that such a rate application would not correctly reflect the underlying cost of the service.[33] However, there was not a clear consensus that any one-size-fits-all calculation could produce a SLC application that would approximate a market rate, or would correctly reflect the cost of a given ISDN arrangement. Further, any single solution the Commission might adopt for ISDN is unlikely to be applicable to future derived channel services.

The best way to ensure fair competition and promote economic efficiency is to build a versatile structure that will allow for recovery of the appropriate amount of NTS costs from the customers in a given location.[34] "If competition is

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[31] AT&T at 12.

[32] *See* n.8 and n.9 *supra*.

[33] *See* Cable & Wireless at 3; TCA at 2; Sprint at 3; ITI at 6.

[34] The Commission has already established, through its Price Cap plans, mechanisms which allow carriers to adjust rates between reasonable

increasing rapidly, then market forces rather than government mandate, can and should regulate cost recovery. There is simply no need for the elaborate SLC and CCL regulatory requirement."[35] Conversely, adoption of a rigid rule could distort competition since "IXC providers of P[rimary] R[ate] I[nterface] ISDN compete with the LEC ISDN services; an additional regulatory cost on the LEC's service will only encourage customers to switch to competitive providers, which may exacerbate universal service concerns."[36]

The Commission should seize the opportunity to adopt a SLC application policy that is compatible with the new competitive environment and allow a reasonable range of SLCs to be charged that will accommodate the varied market prices of ISDN in different locations.

VI. THE APPLICATION OF SLCS TO ISDN ON A ONE SLC PER ISDN SERVICE BASIS WOULD BE THE BEST ONE-SIZE-FITS-ALL ALTERNATIVE FOR THE INTERIM.

In the event the Commission decides both to proceed with the instant *NPRM*, and adopt a one-size-fits-all rule, a broad range of parties supports the one SLC per facility approach,[37] also described in the *Notice* (at ¶24) as one SLC

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floors and ceilings. Further, the *Notice* (at ¶34) contemplates a range of SLC charges by suggesting that it would "permit, but not require, the LECs to apply fewer SLCs for derived channel services than the current rules require . . ."

35 Microsoft at 4.

36 CIX at 3-4.

37 *See, e.g.*, National Telephone Cooperative Association ("NTCA") at 2; RTC at 3; Roseville Telephone Company at 2; Southwestern Bell at 3;

per derived channel service application approach, and in several comments as one SLC per service interface or per ISDN service.[38]

"[The SLC per ISDN service approach] is most likely to promote the use of ISDN and other derived channel services and thereby promote greater use of emerging information technologies and increase NII expansion. Thus, ... the per-facility approach is in the public interest."[39] Further, "the facility-based approach is more adaptable to new technologies."[40]

Moreover, the SLC per ISDN service approach "...will likely promote switched access utilization...."[41] Increased network usage resulting from ISDN deployment will mitigate the potential for upward pressure on CCL rate levels.[42]

Ameritech at 2; Cincinnati Bell at 3; Pacific Bell at 4; Bell South at 4; Time Warner at 4; Online Providers at 6; API at 3; CDT at 9; ITI at 7; TCA at 6; USTA at 6; MCI at 3.

38 As the comments in this proceeding confirm, the benefits of the single SLC per ISDN service would be most effectively captured by adoption of a versatile SLC application policy, as recommended in Section V *supra*.

39 Microsoft at 4.

40 API at 5.

41 API at 4.

42 *See* ITI at 7 ("...PC-based ISDN communications will add significant new connections and produce enormous volumes of telecommunications traffic to the PSTN. ... As a result, there is little basis for concern that eliminating the above-cost multiple subscriber line charges for ISDN users will result in higher toll charges for residential customers."). *See also*, TCA at 8 ("Reducing the number of SLCs assessed on ISDN lines should significantly boost traffic, thereby producing sufficient usage-sensitive CCL revenues to offset any loss in SLC revenues and avoid the need for an increase in the CCL.").

These predictions from consumers confirm the Commission's expectation expressed in the Price Cap proceeding that new services such as ISDN can "increase the value of common lines to customers, and thus the usage per-line."[43] This view is also supported by MCI's experience. "MCI believes that broader ISDN deployment should lead to increased long distance network usage" and "has found that BRI line usage is 70% long distance."[44] Further, "[b]ased on the patterns of computer and modem usage in residential and small business settings, it is unlikely that transition from analog phone usage to ISDN usage will lead to any shortfall in SLC revenues."[45]

MCI's estimate (at 1-2 and Appendix 1) of the impact on SLC revenues from abandonment of the SLC per derived channel approach is much too high since it is based upon two faulty assumptions. First, it assumes that it would be possible to actually collect a SLC per derived channel from the existing ISDN customer base. Comments clearly show this to be a faulty assumption since application of a SLC per channel would lead to a dramatic lowering of the existing ISDN customer base and a dampening of future demand.[46] Second, it assumes continuation of the very high growth rate of ISDN that is based primarily

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43 *LEC Price Cap Order,* 5 FCC Rcd at 6794 (1990).

44 MCI at 3.

45 CDT at 10. *See also,* CIX at 2.

46 *See* n.8 *supra*. *See also*, USTA at 3-5; Bell South at 4; Rochester at 2; CIX at 3.

upon SLC application methods used by the majority of LECs that are different from the per channel approach.[47] Therefore, MCI's calculation shows only a meaningless theoretical difference between SLC revenues associated with the per channel and per derived channel service application approaches.

Although it is well understood that the Commission's SLC application rules are not tied directly to the costs of loops,[48] a number of parties demonstrate that the SLC per ISDN service approach is not inconsistent with the loop costs involved with ISDN BRI service. "The provision of ISDN does not require any modification of the local loop facilities. Rather, it involves use of ISDN line cards with a digital switch . . ."[49] Therefore, there is no cost basis for requiring the application of more than one SLC to ISDN BRI service.

As for ISDN PRI service, several parties either argue for, or find acceptable, the application of two SLCs to ISDN PRI service.[50] Although GTE feels the use of the SLC per ISDN service approach would best stimulate deployment of ISDN and promote the maximum public benefits, GTE can support application of two SLCs to ISDN PRI service as the next best alternative. If the Commission adopts this approach, GTE also agrees with ITI (at n.10) that ISDN

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47 *See* n.23 *supra*.

48 *Notice* at ¶29.

49 TCA at 5. *See also*, Time Warner at 5; Cable & Wireless at 3; MCI at 3; Pacific Bell at 5; Bell South at 3; Southwestern Bell at 9.

50 *See* NTCA at 2; RTC at 4; Tennessee PUC at 3; ITI at 7; TCA at 7; Rochester at 2.

service derived from coaxial cable or fiber optic technology should have a SLC "applied `as if' the service were being deployed over copper wiring."

Of the one-size-fits-all interim options, the one that would best allow ISDN deployment to accelerate is application of one SLC per ISDN service. The record shows that this approach will likely produce significant amounts of new switched traffic, while avoiding anything more than a *de minimis* impact on the CCL. Alternatively, comments support application of one SLC per copper loop, or per copper loop equivalent.

VII. THE "COST RATIO" APPROACH PROPOSED IN THE NOTICE SHOULD NOT BE ADOPTED.

Two parties recommend adoption of the cost ratio approach.[51] The comments of GTE (at 16-18) and others demonstrate that this approach should not be pursued.

The cost ratio approach proposes to apply a number of SLC charges to selected LEC customers based upon a calculation of costs through an undefined costing method that would introduce a new and needlessly complex regulatory requirement just for a single service.[52] In fact, if such cost studies were properly

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51 Public Utility Commission of Texas at 5-6; US West at 4. Bell Atlantic proposes a version of this approach in that it recommends a new SLC surcharge per derived channel for ISDN PRI service. GTE's objections to the cost ratio approach are also applicable to the Bell Atlantic proposal.

52 As AT&T notes (at 6) "[t]his would be a time consuming activity that could delay the introduction of the appropriate SLC rules as they apply to ISDN."

restricted to only the loop plant involved,[53] the additional efforts by all involved are likely to yield a ratio little different than simply applying one SLC per ISDN service, especially for ISDN BRI. This result can be expected since there is but a minor difference between the cost per ISDN loop and the cost per non-ISDN loop.[54]

Moreover, while creating service-specific NTS recovery is a commendable objective,[55] the cost ratio approach would not achieve that goal. As proposed, this approach would merely apply a calculated number of charges that are themselves: (i) based on a fully distributed allocation methodology; (ii) capped at a level established through a political process; and (iii) varied in amount based on the identity of the customer. Thus, all of this effort would not result in recovery of the NTS costs actually associated with ISDN. Rather than wasting valuable industry resources in this manner, the Commission should focus on a comprehensive proceeding that could examine all NTS recovery policies.

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53 *See Notice* at ¶29. *See also*, GTE at n.37; Rochester at n.7; Time Warner at 5.

54 *See* n.49 *supra*. The small size of Bell Atlantic's surcharge also supports this prediction. *See* Bell Atlantic at 5 ("Bell Atlantic estimates that the initial surcharge for each `B' channel covered by the surcharge would be no higher than fifty cents per month and is likely to be lower." [footnote omitted])

55 A number of parties support flat rate recovery of NTS costs from the cost causer. *See, e.g.,* NYNEX at 20-21; AT&T at 12.

GTE fully supports the principle of setting prices to recover the relevant costs associated with a service. As competition develops, prices will be fine-tuned, not by elaborate average cost studies and rate application rules, but by each carrier's incentive to adjust to market levels within the price cap constraints.

CONCLUSION

The Commission should act expeditiously to encourage the deployment and use of ISDN service in accordance with the recommendations herein. The public benefits that will result will be enormous, while the predictions of impact on CCL rates from abandoning the per derived channel SLC application approach are greatly exaggerated. The Commission must seize the opportunity to bring the benefits of digital telecommunications to the Nation as rapidly as possible.

Respectfully submitted,

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no higher than fifty cents per month and is likely to be lower." [footnote omitted])

Certificate of Service

I, Ann D. Berkowitz, hereby certify that copies of the foregoing "Reply Comments of GTE" have been mailed by first class United States mail, postage prepaid, on the 14th day of July, 1995 to all parties on the attached list.

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